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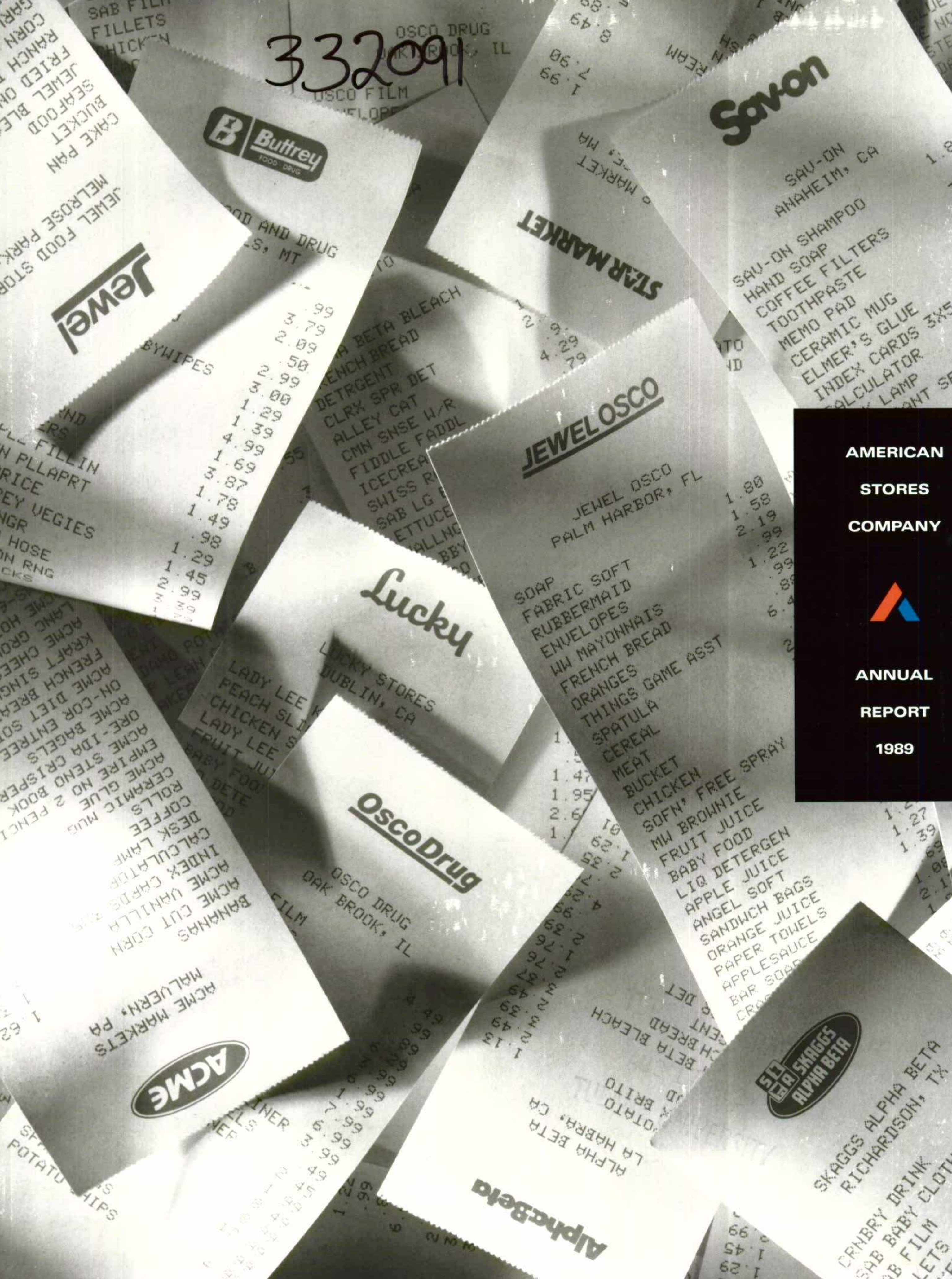


AMERICAN STORES COMPANY

ANNUAL REPORT 1989

COMPANY PROFILE

American Stores Company is a holding company. The Company conducts all of its activities through its wholly-owned subsidiaries: American Superstores, Inc., comprised of Acme Markets, Inc., Jewel Food Stores and Star Market; American Drug Stores, Inc., a nationwide drug chain which operates retail outlets under the Osco and Sav-on names; American Food and Drug, Inc., comprised of Skaggs Alpha Beta, Buttrey Food-Drug and Jewel Osco; Alpha Beta Company and Lucky Stores, Inc.

American is principally engaged in a single industry segment, the retail sale of food and drug merchandise, a highly competitive industry. The Company is one of the nation's leading retailers, operating combination drug/food stores, super drug centers, drug stores and food stores. The merchandise sold by the subsidiaries includes most food and non-food items such as prescription drugs, tobacco products, housewares, health and beauty aids and sundry merchandise for home and family use. The Company operates 1,894 retail units in 40 states. As of February 3, 1990, the Company had approximately 170,400 employees.

CONTENTS

FINANCIAL HIGHLIGHTS

Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands, except per share data)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Sales	**$22,004,154**	$18,478,354	$14,272,395
Net earnings	**$118,129**	$98,251	$154,310
Earnings per common share	**$3.45**	$2.54	$4.19
Dividends declared per share:			
Common stock	**$1.00**	$.88	$.84
Preferred stock: Series A $4.375	**$2.1875**	$4.375	$4.375
Series B $6.80		$3.66	$6.80
Common shareholders' equity	**$1,201,811**	$922,122	$885,744
Book value per common share outstanding	**$34.86**	$30.51	$29.38
Return on common shareholders' average equity	**10.3%**	8.5%	15.0%
Average common shares outstanding	**31,713**	30,185	30,830
Common shares outstanding at year end	**34,471**	30,225	30,144

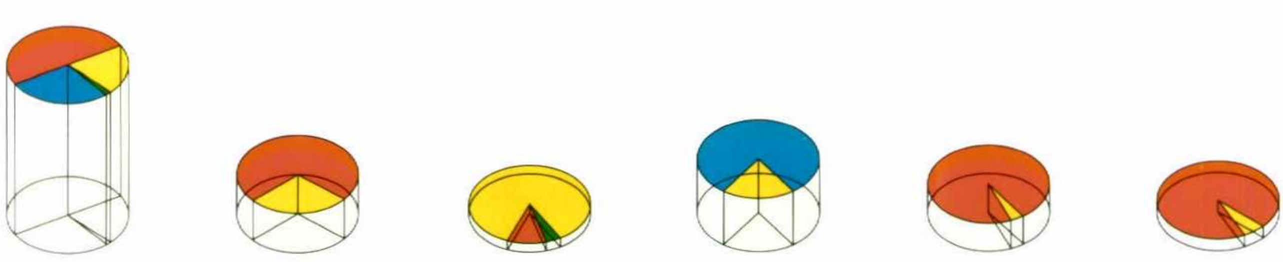
COMMON STOCK MARKET PRICES AND DIVIDENDS

Fiscal Years Ended	**February 3, 1990**			January 28, 1989			January 30, 1988		
	Sales Price		**Cash Dividend**	Sales Price		Cash Dividend	Sales Price		Cash Dividend
	High	**Low**	**Declared**	High	Low	Declared	High	Low	Declared
First Quarter	**$62 1/8**	**$55 5/8**	**$.25**	$66 1/2	$53	$.21	$71 1/8	$58 5/8	$.21
Second Quarter	**71 3/8**	**59 7/8**	**.25**	61 3/4	47 5/8	.21	81	65 1/2	.21
Third Quarter	**71 1/4**	**53**	**.25**	65	48 1/2	.21	86 1/4	48 1/8	.21
Fourth Quarter	**61 1/2**	**53 3/4**	**.25**	60 3/8	51 1/2	.25	64	41 1/2	.21
			$1.00			$.88			$.84

The market price range on the New York Stock Exchange and the dividends declared on the Company's common stock are set forth in the table above. The common shares of the Company are listed on the New York, Philadelphia, Midwest, and Pacific stock exchanges under the trading symbol "ASC." The number of shareholders of record of the Company's common stock at April 3, 1990 was 22,422.

CONSOLIDATED STORE COUNT

	American Stores Company	American Superstores, Inc.	American Food and Drug, Inc.	American Drug Stores, Inc.	Lucky Stores, Inc.	Alpha Beta Company
Grocery	948	390	14	0	379	165
Drug	531	0	0	531	0	0
Combo	411*	144*	105	141*	11	10
Other	4	0	4	0	0	0
Total	**1894***	**534***	**123**	**672***	**390**	**175**



*141 stores are Jewel/Osco combination stores

AMERICAN STORES COMPANY
NATIONAL MARKET AREAS

American Stores Company
5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah
84127-0447
Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

American Superstores, Inc.
- Acme Markets, Inc. 285 stores in 7 states
- Jewel Food Stores 216 stores in 4 states
- Star Market 33 stores in 2 states

American Food and Drug, Inc.
- Skaggs Alpha Beta 72 stores in 4 states
- Buttrey Food-Drug 48 stores in 6 states
- Jewel Osco 3 stores in 1 state

American Drug Stores, Inc.
- Osco Drug 498 stores in 26 states
- Sav-on 174 stores in 3 states

Lucky Stores, Inc.
- Lucky 390 stores in 2 states

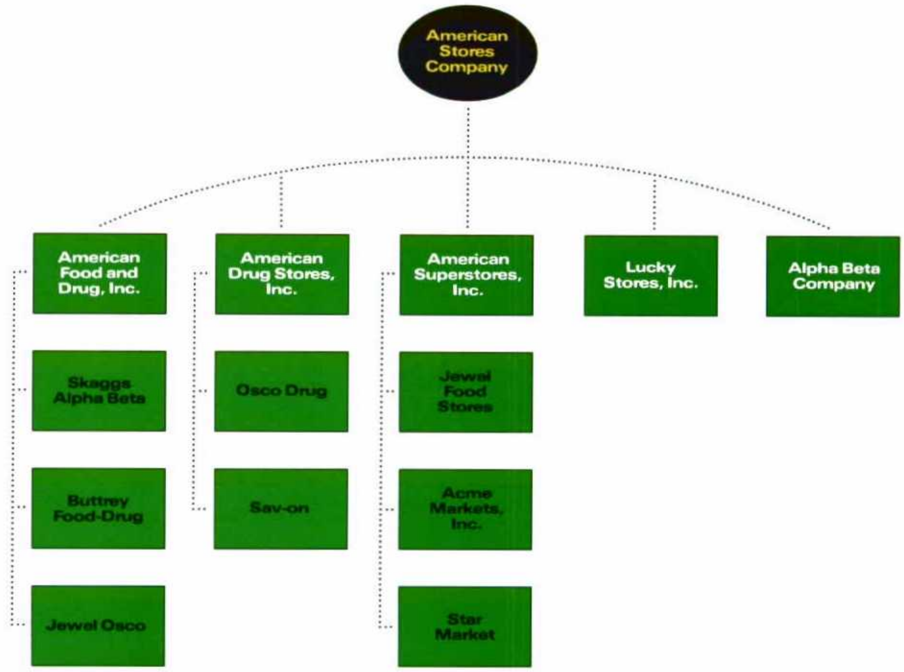
Alpha Beta Company
- Alpha Beta 175 stores in 1 state

Acme Markets, Inc.
75 Valley Stream Parkway
Malvern,
Pennsylvania 19355
(215) 889-4000
Robert A. Neslund
President

Lucky Stores, Inc.
6300 Clark Avenue
P.O. Box BB
Dublin,
California 94568
(415) 833-6000
Lawrence A. Del Santo
Chairman, Chief Executive Officer
and President

Skaggs Alpha Beta
1100 Executive Drive West,
Suite 100
Richardson,
Texas 75081
(214) 238-7231
Neill F. Crowley
President

AMERICAN STORES COMPANY
OPERATING STRUCTURE



Jewel Food Stores
1955 West North Avenue
Melrose Park,
Illinois 60160
(708) 531-6000
Joseph V. Bugos
President

Star Market
625 Mt. Auburn Street
Cambridge,
Massachusetts 02238-9122
(617) 661-2200
Martin A. Scholtens
President

Alpha Beta Company
777 South Harbor Boulevard
La Habra,
California 90631
(714) 738-2000
Roger D. Wilhelm
Acting President

Buttrey Food-Drug
601 6th Street S.W.
Great Falls,
Montana 59403
(406) 761-3401
Edward C. Agnew
President

Jewel Osco
1209 U.S. Highway 19 North,
Suite 124
Palm Harbor,
Florida 34684-2642
(813) 787-5225
Mark S. Skaggs
President

American Drug Stores, Inc.
1818 Swift Drive
Oak Brook, Illinois 60521
(708) 572-5000
David L. Maher
President

DEAR SHAREHOLDER:

American Stores Company achieved generally good results in 1989 as we continued to improve operating performance throughout the Company. Corporate revenues and operating cash flows were at all-time highs. The ambitious capital improvement program we undertook in the late 1980's has reached a stage that now allows us to modify capital expenditures and begin directing some of our cash flow to pay down debt. While the Supreme Court of the United States is currently reviewing a lower-court decision favorable to the Company on the Lucky Stores, Inc./Alpha Beta merger, we achieved some progress through negotiations with the California Attorney General. In short, as we enter the new decade, both the near-term and long-term outlook for American Stores Company is positive.

NET EARNINGS PERSPECTIVE

Net earnings for the 1989 fifty-three week fiscal year ended February 3, 1990, increased 20.2 percent to $118.1 million or $3.45 per common share, from net earnings of $98.3 million or $2.54 per common share for the 1988 fifty-two week fiscal year ended January 28, 1989. The results of Lucky Stores, Inc., are included from June 2, 1988.

The 1989 fiscal year earnings per common share include nonrecurring gains on the sale of assets of $.59. In addition, there was a gain of $.16 per common share from the disposition of a minority interest in Eagle Food Centers, Inc., and expenses incurred as a result of the San Francisco Earthquake, which reduced third quarter earnings by $.06 per common share.

In the fourth quarter, the Company accrued a pretax charge to earnings of $32.5 million, or $.61 per common share, for the Company's Salmonella litigation. The litigation is related to the 1985 Salmonella outbreak at the Company's Jewel Companies, Inc. subsidiary. An independent actuarial study has recently been completed regarding pending class action claims. The Company has reviewed the study as well as the remaining claims outside the class action, with outside counsel to estimate the cost of resolving these claims. Based on this analysis, the Company believes that the total Salmonella litigation reserves, after this addition, should be sufficient to cover the remaining claims and expenses related to this matter.

The Company's pretax LIFO charge to earnings amounted to $57.6 million or $1.09 per common share in 1989, compared to $58.2 million, or $1.19 per common share in 1988.

Net earnings in the 1989 fourteen-week fourth quarter increased to $53.1 million, or $1.61 per common share, compared to $20.2 million or $.52 per common share in the 1988 thirteen-week fourth quarter.

The income tax rate for 1989 increased to 52.8 percent and reflects the amortization of purchase accounting adjustments that are not deductible for tax purposes.

Continuing to apply technology to retail operations,
Acme installed front-end scanning systems in 149 stores
and upgraded the technology in 104 additional stores.

During the 1989 third quarter all outstanding shares of Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock were called for redemption at a redemption price per share of $52.625 plus accrued dividends of $0.7072. Substantially all holders of the Series A Preferred Stock elected to convert each preferred share into 1.0782 shares of common stock. Approximately 3,842,000 Series A Preferred shares were converted into approximately 4,141,000 shares of common stock. The effect of the conversion was to increase earnings per common share by $.11 in 1989. As of February 3, 1990, there were 34,471,000 shares of common stock outstanding.

For the fifty-three week 1989 year, preferred dividends amounted to $8.6 million versus $21.4 million in 1988. No preferred dividends were paid in the 1989 fourth quarter, while $4.3 million of such dividends were paid in the fourth quarter of 1988.

OPERATING PERFORMANCE

Net sales for the fifty-three week 1989 year were $22 billion, an increase of 19.1 percent from $18.5 billion for 1988. The increase in part reflects the inclusion in 1989 of a full fiscal year of Lucky Stores, Inc.'s sales versus only eight months in 1988 as well as the impact of a fifty-three week fiscal year in 1989. Substantial revenue improvements are attributable to the Company's ongoing sales enhancement programs which enabled all of the regional companies to achieve like store sales gains that exceeded inflation. Overall, comparable fifty-two week like store sales increased 5.7 percent in 1989.

Operating profits increased 35.8 percent to $603.5 million for the 1989 year compared to $444.3 million in 1988, with all retail subsidiaries exceeding prior-year levels.

American Drug Stores, Inc., after a solid performance in the year's second half, recorded pre-LIFO operating profit of $158.9 million in 1989, a 6.1 percent increase. Sales were $3.5 billion, up 10.4 percent over 1988. Like store sales increased 6.4 percent on a fifty-two week comparable basis. A highlight of the year was the re-naming of the former Sav-on drug stores, reflecting the strength of Sav-on's franchise in the southern California and Las Vegas markets.

Food and combination stores reported pre-LIFO operating profit of $534 million, a 46.3 percent increase over 1988. Sales for our food and combination stores increased 21 percent in 1989 to $18.5 billion. Like store sales increased 5.6 percent on a fifty-two week comparable basis with 1988.

REVIEW OF LITIGATION

In 1988, the California Attorney General filed a complaint against American Stores Company challenging its acquisition of Lucky Stores, Inc. on antitrust grounds. Later, the United States District Court granted a preliminary injunction barring full integration of the Alpha Beta and Lucky operations pending a full trial on the merits.

Through the recognition of thousands of employees as "Service Stars," Jewel continues its emphasis on serving the needs of its customers.

We appealed the preliminary injunction to the United States Court of Appeals for the Ninth Circuit. In March 1989, the Court set aside the preliminary injunction which we believed cleared the way for the Lucky Stores/Alpha Beta integration.

However, the Supreme Court of the United States agreed to review the case and oral arguments were presented by both sides on January 16, 1990. The merits of the case are not before the Court. The only issue before the Supreme Court is whether the district court has the power in an antitrust case brought by a state Attorney General to order divestiture as a permanent or a preliminary remedy. Meanwhile, as we await a ruling from the Supreme Court, the preliminary injunction issued in September 1988 remains in effect.

While we have been frustrated by the continued delays in definitively resolving this matter, we have resolved two related business issues. First, on November 7, 1989, the Company, in cooperation with the California Attorney General, agreed to a modification of the preliminary injunction which allowed 36 Alpha Beta stores in northern California to be combined with Lucky's operations in the same region. As part of the stipulation, the Company agreed to divest approximately 13 additional stores in northern California. The stipulation, which contains several additional terms and conditions, does not affect the ongoing litigation before the United States Supreme Court as it relates to the southern California divisions of Lucky and Alpha Beta.

In January 1990 and again in cooperation with the California Attorney General, the Company obtained a further modification of the preliminary injunction. The new stipulation, approved by the Court, permits the manufacturing and warehousing facilities of Lucky's southern California division to sell and deliver merchandise and products to stores operated by Alpha Beta and for the manufacturing and warehousing facilities of Alpha Beta's southern California division to sell and deliver merchandise and products to stores operated by Lucky. Additionally, the stipulation provides a number of other positive benefits to operations and personnel.

FINANCIAL MATTERS

The Company continues to be in sound financial condition with strong cash flow and adequate borrowing capability.

At year-end 1989, the Company's ratio of debt to capitalization was 74.9 percent, compared to 76.2 percent at year-end 1988, continuing to reflect borrowings associated with the Lucky Stores acquisition. It remains our intention to further reduce this ratio over time to more customary levels and based on our past performance and current strength we are confident of our ability to do so.

In response to the San Francisco Earthquake, Lucky and Alpha Beta raised over $1.2 million for the American Red Cross from customers and employees through a matching gift program.

As further evidence of the Company's financial strength, we will continue to pursue a capital spending program funded largely through internal cash flow. Capital expenditures in 1989 were $552.3 million, up from $500.5 million in 1988, including Lucky Stores, Inc., from June 2, 1988. Our capital expenditure program was primarily funded from internally generated cash and secured financings, however, total debt remained unchanged from a year ago.

The Company refinanced $561 million of its floating rate debt on a fixed rate basis, increasing the level of fixed rate debt to 34 percent of total debt compared to 24 percent in 1988. At year end, fixed rate and variable rate hedged debt was 72 percent of total debt.

EMPLOYEE EXCELLENCE

American Stores Company's employees evidenced remarkable pride and loyalty to their organizations as well as to the citizens, communities and states in which they reside. This past year, as a result of the California Attorney General's litigation, our Lucky and Alpha Beta employees were forced to perform under very difficult circumstances. They proved up to the challenge by producing excellent operating results considering the difficult circumstances they faced. Our employees displayed a unique pride not only in their respective organizations but proved they were caring citizens as well. In addition to the $7.3 million that Lucky donated in conjunction with our suppliers to California food banks to feed the homeless, Lucky and Alpha Beta raised over $1.2 million from customers and employees for victims of the earthquake in San Francisco. Additionally, our employees at Lucky collected over fifty trailers of food from our dedicated customers and along with Alpha Beta and Sav-on, Lucky donated food, water, pharmacy services and emergency supplies to earthquake rescue workers, Red Cross Command Centers and victims who were left homeless by the earthquake. Furthermore, Buttrey stores from as far away as Montana and the Skaggs Alpha Beta stores in Utah participated in the earthquake relief by donating emergency supplies for distribution by their sister chains in California.

This community spirit is alive in every division of the Company. At Jewel Food Stores in Chicago, Illinois, there was a similar outpouring of caring and generosity as they donated two trailer loads of food and emergency supplies, through the Salvation Army, to the victims of Hurricane Hugo in the southeastern United States. Jewel Food Stores also assisted local food banks last year by contributing 1.5 million pounds of surplus food to "Second Harvest," a program to feed the area's homeless. Acme Markets, Inc. in Philadelphia, Pennsylvania, in a similar program, donated over $3.2 million to Philadelphia and Delaware Valley food banks to feed the poor and homeless. Star Markets in Cambridge, Massachusetts, donated 4 million pounds of food worth $1.8 million to the Massachusetts Food Bank last year. Our Skaggs Alpha Beta stores in Utah were the main source of food for the local Catholic Charities Soup Kitchen and prior to being sold in January 1990 the Utah stores contributed over $287,000 of merchandise to over 20 charitable organizations. Finally, both Buttrey and Skaggs Alpha Beta undertook a program to raise funds for the purchase of Apple Computers and software for schools in their respective areas. Buttrey and Skaggs Alpha Beta anticipate awarding $1.9 million in computers and software to local schools under the Apples for Students Program.

Skaggs Alpha Beta introduced the position of Customer Services Manager and instituted extensive employee training programs directed toward enhanced customer service.

Our employees have continued to be the outstanding strength of the Company during the year, with unselfish dedication to their respective companies and to the communities and citizens they serve. While the strain of uncertainty resulting from the continuing California litigation has been felt at every level of the Company, everyone has continued to focus on our primary objective, that of serving our customers. We are proud of the excellent performance turned in by our employees in 1989, their willingness to support the communities in which we operate and for the loyalty they displayed as we undertook the difficult task of selling some of our underperforming assets.

ENTERING THE 1990s

American Stores Company enters the 1990s as the nation's largest supermarket and drug store chain. To capitalize on that market leadership and to enhance our ability to respond efficiently and effectively to changing national, regional, and local conditions, we continue to review all of the Company's operations which are grouped around five largely autonomous divisions: American Superstores, American Drug Stores, American Food and Drug, Alpha Beta and Lucky Stores. Additionally, the Company is studying ways of further reducing administrative expenses by sharing resources where it makes economic sense.

The Company is engaged in an ongoing process of disposing of marginal and unprofitable stores, while at the same time constructing new stores, enlarging, remodeling and updating existing stores to enhance our performance. Accordingly, during the year, the Company disposed of or closed a total of 87 stores, including 21 Skaggs Alpha Beta stores, 10 Star Market stores and 21 stores in California. We opened a total of 64 stores and we enlarged or otherwise remodeled 76 stores. In our food stores, we are focusing on the addition of large combination food/drug stores with service departments such as pharmacies, bakeries, delis, service meat, service fish and floral.

IN CONCLUSION

American Stores Company continues to build its value to shareholders, customers, employees and communities nationwide by consistently seeking new and better ways to deliver products and services to our customers. With our many strengths, a unique franchise, and an outstanding group of well trained and dedicated employees, we are confident of our ability to reward you for your continuing confidence in the Company.

J. L. Scott

J. L. Scott
Vice Chairman of the Board
and Chief Executive Officer

American Drug Stores is currently focusing on delivering more local flavor to its diverse markets by blending the strengths of centralized procurement with local buying staff.

Shareholders and Board of Directors
American Stores Company
Salt Lake City, Utah

Ernst & Young

515 South Flower Street
Los Angeles, California 90071
(213) 977-3200

We have audited the accompanying consolidated balance sheets of American Stores Company and subsidiaries as of February 3, 1990, January 28, 1989 and January 30, 1988 , and the related consolidated statements of earnings, common shareholders' equity, and cash flows for each of the three fiscal years in the period ended February 3, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above on pages 15 through 33 present fairly, in all material respects, the consolidated financial position of American Stores Company and subsidiaries at February 3, 1990, January 28, 1989 and January 30, 1988, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 1990, in conformity with generally accepted accounting principles.

March 9, 1990

Ernst + Young

The following consolidated selected financial data of American Stores Company and subsidiaries for the five years ended February 3, 1990 should be read in conjunction with the Company's consolidated financial statements and related notes appearing elsewhere herein.

(In thousands, except per share data)	**February 3, 1990**[1]	January 28, 1989[2]	January 30, 1988	January 31, 1987	February 1, 1986
Sales	**$22,004,154**	$18,478,354	$14,272,395	$14,021,484	$13,889,528
Net earnings	**$118,129**	$98,251	$154,310	$144,528	$154,470
Less preferred dividends declared:					
Series A $4.375[4]	**(8,601)**	(17,216)	(17,387)	(17,386)	(17,335)
Series B $6.80[4]		(4,223)	(7,839)	(7,827)	(7,805)
Net earnings available to common shareholders	**$109,528**	$76,812	$129,084	$119,315	$129,330
Average common shares outstanding	**31,713**	30,185	30,830	31,456	31,464
Net earnings per common share	**$3.45**	$2.54	$4.19	$3.79	$4.11
Cash dividends declared per common share[3]	**$1.00**	$.88	$.84	$.84	$.69
Total assets at year-end	**$7,397,984**	$7,010,420	$3,650,197	$3,590,174	$3,462,513
Long-term obligations	**$3,399,239**	$3,288,932	$1,024,424	$1,023,064	$1,082,140
Redeemable preferred stock[4]		$196,305	$255,787	$256,428	$255,678

[1] 53 Weeks.
[2] Reflects the acquisition of Lucky Stores, Inc. on June 2, 1988.
[3] For restriction on common dividends, see "Debt" in notes to consolidated financial statements.
[4] The Company called for redemption of all of its Series A $4.375 Preferred Stock in October 1989 and redeemed all of its Series B $6.80 Preferred Stock in August 1988. See "Preferred Stock" in notes to consolidated financial statements.

RESULTS OF OPERATIONS

Net earnings for the year ended February 3, 1990 amounted to $118,129,000, or $3.45 per common share, compared to net earnings for the year ended January 28, 1989 of $98,251,000, or $2.54 per common share. Net earnings for the year ended January 30, 1988 amounted to $154,310,000, or $4.19 per common share.

Comparisons of the results of operations for the years 1989, 1988 and 1987 are difficult due to the acquisition of Lucky Stores, Inc., on June 2, 1988 and the fifty-three week fiscal year in 1989. Fiscal years 1988 and 1987 were fifty-two week years.

During fiscal 1989, earnings per common share were impacted by nonrecurring gains from the sale of assets of $.59, a gain of $.16 from the disposition of the investment in Eagle Food Centers, Inc. and a $.06 charge from expenses incurred in the San Francisco Earthquake.

Fiscal years 1989 and 1988 were impacted by charges of $.61 per common share and $.40 per common share, respectively, for fees and expenses relating to the 1985 Salmonella incident at the Company's Jewel Companies, Inc. subsidiary.

The LIFO charge to earnings amounted to $1.09, $1.19 and $.45 per common share in 1989, 1988 and 1987, respectively.

Fiscal 1988 includes income of $.99 per common share from the partial recovery of assets in a terminated defined benefit retirement plan. Additionally, the 1988 year was adversely impacted by a charge of $.41 per common share to increase reserves at an inactive captive insurance subsidiary.

On June 2, 1988, Alpha Beta Acquisition Corporation, an indirect wholly owned subsidiary of the Company, accepted for purchase all validly tendered shares of common stock of Lucky Stores, Inc. pursuant to the tender offer for all outstanding shares at $65.00 per share in cash. The acquisition of Lucky Stores, Inc. has been accounted for by the purchase method of accounting and impacts all comparisons between 1989, 1988 and 1987. The acquisition is described further in the notes to consolidated financial statements.

Net earnings in 1987 included a non-recurring gain from the disposition of a group of Osco drug stores of $.23 per common share. Earnings per common share in 1987 were negatively impacted by $.17 for losses associated with an inventory clearance program at Osco Drug.

Sales for 1989 amounted to $22,004,154,000 compared to $18,478,354,000 in 1988 and $14,272,395,000 in 1987. Sales from like stores, on a comparable fifty-two week year, increased 5.7 percent in 1989, 5.8 percent in 1988 and 2.3 percent in 1987. The Company operated 1,894 stores in 40 states at February 3, 1990, 1,917 stores in 39 states at January 28, 1989 and 1,590 stores in 39 states at January 30, 1988. Retail sales area square footage at year end amounted to 38,609,000 in 1989, 38,894,000 in 1988 and 31,303,000 in 1987.

Gross profits as a percent of sales were 25.12% in 1989, 24.71% in 1988 and 24.77% in 1987. The Company accounts for most of its inventories under the

LIFO (last-in, first-out) method. At year end 1989, 92% of the Company's inventories were valued under the LIFO method compared to 93% in 1988 and 1987. The pretax LIFO charge amounted to $57,588,000 in 1989, $58,224,000 in 1988 and $26,051,000 in 1987.

Operating expenses for 1989, as a percent of sales, were 22.37% compared to 22.31% in 1988 and 22.06% in 1987. Operating expenses for 1989 include expenses incurred to change the name of the California drug stores from Osco to Sav-on, as well as charges for fees and claims from the Salmonella incident of $32,500,000 in 1989 and $20,000,000 in 1988.

Operating profits increased 35.8 percent in 1989 to $603,527,000, as compared to $444,339,000 in 1988 and $386,668,000 in 1987. Operating profits as a percent of sales were 2.74% in 1989, compared to 2.40% in 1988 and 2.71% in 1987.

Net other expenses amounted to $353,189,000 in 1989 and included interest expense of $400,370,000, interest income of $15,855,000 and other income of $31,326,000. The increase in interest expense, when compared to 1988, was due to the acquisition borrowings which were outstanding for a full year in 1989 compared to a partial year in 1988 and the expense related to the additional week in the 1989 fifty-three week fiscal year. Interest income included the interest received as part of the Company's disposition of its investment in Eagle Food Centers, Inc. Other income included miscellaneous non-operating income and net gains from the sale of assets. During 1989, the Company disposed of selected stores in California, including those which facilitated the combination of the Lucky and Alpha Beta operations in northern California. Other stores located in Rhode Island, Arkansas, Kansas, Texas and Utah, which were under-performing and not compatible with the long term strategies of the operating subsidiaries, were disposed of. The Company will continue to review the sale of additional assets, including store locations, as opportunities arise.

Net other expenses were $237,236,000 in 1988 and included interest expense of $285,421,000, interest income of $9,828,000 and other income of $38,357,000. Included in other income is the income of $53,290,000 from a terminated retirement plan and the additional expense of $21,970,000 for self-insurance reserve adjustments at an inactive captive insurance subsidiary. The increase in interest expense in 1988 compared to 1987 is directly attributed to the purchase of Lucky Stores, Inc.

Net other expenses were $95,517,000 in 1987 and included interest expense of $110,906,000, interest income of $2,029,000 and other income of $13,360,000. Included in other income was a gain of $14,331,000 from the sale of a group of Osco drug stores in the Pacific Northwest.

Earnings before taxes were $250,338,000 in 1989, $207,103,000 in 1988 and $291,151,000 in 1987. The effective income tax rates were 52.8% in 1989, 52.6% in 1988 and 47.0% in 1987. The increase in the tax rates for 1989 and 1988 compared to 1987, was primarily due to the non tax-deductible nature of the amortization of the Lucky purchase accounting adjustments. The Company has not elected early adoption of Financial Accounting Standards Board Statement No. 96, "Accounting for Income Taxes." See notes to consolidated financial statements for additional disclosure on income taxes.

Average common shares outstanding were 31,713,000 in 1989, 30,185,000 in 1988 and

30,830,000 in 1987. As of February 3, 1990, there were 34,471,000 shares of common stock outstanding. Preferred dividends amounted to $8,601,000 in 1989, $21,439,000 in 1988 and $25,226,000 in 1987. The decrease in preferred dividends reflects the conversion of substantially all outstanding shares of the Company's Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock into common stock during 1989 and the redemption of the Company's Series B $6.80 Cumulative Exchangeable Preferred Stock on August 15, 1988. The effect of the conversion of the Series A Preferred Stock into common stock increased 1989 earnings per common share by $.11.

LIQUIDITY AND WORKING CAPITAL

Working capital amounted to $20,466,000 at February 3, 1990 and $330,718,000 at January 30, 1988. Current liabilities exceeded current assets by $35,014,000 at January 28, 1989. Current ratios were 1.01:1, .98:1 and 1.25:1 at February 3, 1990, January 28, 1989 and January 30, 1988, respectively. The negative working capital as of January 28, 1989 was due primarily to the increase in the current portion of long term debt used to acquire Lucky Stores, Inc. The Company will continue to strengthen its working capital through asset dispositions and reductions in capital expenditures.

In connection with the acquisition of Lucky Stores, Inc. in 1988, the Company entered into an agreement with a group of commercial banks, which expires in 1996, that provides the Company with a $3.1 billion credit facility which consists of an amortizing term loan of $2.1 billion and a revolving credit facility of $1.0 billion. Since obtaining the $3.1 billion credit facility, the Company has repaid $821,000,000 of the amortizing term loan and reduced the revolving credit facility by $100,000,000. The net proceeds of asset dispositions of $360,000,000 and proceeds from debt refinancing of $561,000,000 were applied against the $3.1 billion credit facility. At February 3, 1990, $1.279 billion remains outstanding under the amortizing term loan with no scheduled amortization required in 1990. The Company either borrows directly under the revolving credit facility or utilizes the facility to support commercial paper borrowings. The revolving credit facility will be reduced by $100,000,000 on May 31, 1990, leaving $800,000,000 outstanding. The Company also has $140,000,000 of committed bank lines of credit and $105,000,000 of uncommitted bank lines of credit.

At February 3, 1990, January 28, 1989 and January 30, 1988 the Company had short-term borrowings amounting to $953,155,000, $959,735,000 and $329,399,000, respectively, under bank facilities which were classified as long-term debt. At year end, $191,845,000 was unused under the revolving credit facility and the bank lines of credit.

Average short-term borrowings, excluding amounts classified as long-term, amounted to $131,704,000 in 1989, $25,631,000 in 1988 and $84,696,000 in 1987. The maximum of these short-term borrowings outstanding was $299,321,000 in 1989, $116,765,000 in 1988 and $184,017,000 in 1987. Average interest rates charged to the Company on short-term borrowings were 9.42% in 1989, 8.21% in 1988 and 6.98% in 1987.

The Company believes that cash flow, the revolving credit facility and the bank lines of credit are adequate to meet the presently identifiable working capital requirements.

DEBT TO EQUITY

During 1989, the scheduled debt payments were met through internally generated funds, including proceeds from the sale of assets and long term refinancings. After tax proceeds from the sale of assets used to retire debt amounted to $40,000,000 in 1989 and $320,000,000 in 1988. The 1988 proceeds were derived primarily from the sale of Lucky's Florida and Arizona operations. In addition to the scheduled $83 million payment of 13⅞% Subordinated Notes due in 1989, the Company exercised an option to prepay the remaining $42 million due in 1991 and retired the Notes in October 1989.

The Company called for redemption all of its Series A $4.375 Preferred Stock on October 13, 1989 at $52.625 per share plus accrued dividends of $0.7072. Substantially all holders of the Series A $4.375 Preferred Stock exercised the convertible option attached to the preferred stock and converted each preferred share into 1.0782 shares of the Company's common stock. Consequently, 3,842,000 shares of Series A $4.375 Preferred Stock were converted into approximately 4,141,000 shares of common stock during 1989. The Company retired its Series B $6.80 Preferred Stock on August 15, 1988.

In November 1988, the Company entered into a series of interest rate hedging transactions designed to reduce the Company's exposure to increases in short-term interest rates. The transactions included the purchase of interest caps, swaps and options on swaps, covering a majority of the Company's bank credit facilities over the eight year term of the agreement.

During 1987, in addition to scheduled debt payments, the Company retired its 12% Notes due 1990 with a principal balance of $75,000,000 through a combination of internally generated cash and the use of the revolving credit facilities in the form of commercial paper. The Company also purchased 1,060,000 common shares for treasury for $60,662,000 in 1987.

Accordingly, the ratio of total debt plus total obligations under capital leases to common shareholders' equity decreased to 2.98:1 in 1989, compared to 3.89:1 in 1988 and 1.19:1 in 1987.

CAPITAL EXPENDITURES

Capital expenditures for 1989, including additions to capitalized leases, amounted to $552,348,000 compared to $500,527,000 in 1988 and $268,523,000 in 1987. The 1988 expenditures include Lucky Stores, Inc. since June 2, 1988. The Company's current plans provide for capital expenditures of approximately $368,000,000 in 1990 which will be funded by cash provided from operations, asset dispositions and secured real estate financings.

INFLATION AND CHANGING PRICES

Inflation continues to increase costs to the Company including the cost of merchandise, labor, utilities and the cost of acquiring property, plant and equipment. As operating expenses increase, the Company, to the extent permitted by competition, recovers these increased costs by increasing sales prices over time.

The Company uses the LIFO method of accounting for the majority of its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported income due to increasing cost.

The historical costs of property, plant and equipment recorded by the Company were incurred over a period of many years. The cost of replacement of property, plant and equipment is generally greater than the cost on the books of the Company as a result of inflation that has occurred over the years since the property, plant and equipment were placed in service.

CONSOLIDATED STATEMENTS OF EARNINGS

American Stores Company and Subsidiaries

Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands, except per share data)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Sales	**$22,004,154**	$18,478,354	$14,272,395
Cost of merchandise sold, including warehousing and transportation expenses	**16,477,549**	13,912,115	10,737,505
Gross profit	**5,526,605**	4,566,239	3,534,890
Operating, general and administrative expenses	**4,923,078**	4,121,900	3,148,222
Operating profit	**603,527**	444,339	386,668
Other income (expense):			
Interest income	**15,855**	9,828	2,029
Interest expense	**(400,370)**	(285,421)	(110,906)
Other	**31,326**	38,357	13,360
Total other income (expense)	**(353,189)**	(237,236)	(95,517)
Earnings before income taxes	**250,338**	207,103	291,151
Federal and state income taxes	**(132,209)**	(108,852)	(136,841)
Net earnings	**$118,129**	$98,251	$154,310
Net earnings available to common shareholders	**$109,528**	$76,812	$129,084
Average common shares outstanding	**31,713**	30,185	30,830
Net earnings per common share	**$3.45**	$2.54	$4.19

See notes to consolidated financial statements

(In thousands of dollars)	February 3, 1990	January 28, 1989	January 30, 1988
ASSETS			
Current Assets			
Cash and cash equivalents	**$87,478**	$9,458	$30,698
Receivables	**253,189**	232,055	154,748
Inventories	**1,798,444**	1,784,714	1,372,883
Prepaid expenses	**59,457**	72,717	40,793
Deferred income tax benefits	**62,016**	54,521	64,978
Total current assets	**2,260,584**	2,153,465	1,664,100
Property, Plant and Equipment, at cost			
Land	**574,556**	546,458	337,359
Buildings	**958,458**	881,257	632,034
Machinery, equipment and fixtures	**1,787,434**	1,556,869	1,176,987
Leasehold cost and improvements	**537,568**	488,753	309,382
	3,858,016	3,473,337	2,455,762
Less accumulated depreciation and amortization	**1,173,401**	962,669	804,213
Net property, plant and equipment	**2,684,615**	2,510,668	1,651,549
Property Under Capital Leases, less accumulated amortization of $104,572 in 1989, $95,604 in 1988 and $93,180 in 1987	**140,725**	155,869	100,956
Goodwill, less accumulated amortization of $95,618 in 1989, $42,059 in 1988 and $8,429 in 1987	**2,043,539**	1,899,439	89,313
Other Assets	**268,521**	290,979	144,279
	$7,397,984	$7,010,420	$3,650,197

(In thousands of dollars)	February 3, 1990	January 28, 1989	January 30, 1988
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Current maturities of long-term debt	**$172,500**	$283,021	$14,245
Current obligations under capital leases	**14,240**	14,815	11,317
Trade accounts payable	**1,020,740**	980,988	696,822
Accrued payroll and benefits	**345,602**	320,482	252,160
Accrued insurance reserves	**207,258**	165,542	105,253
Other accrued liabilities	**377,090**	366,876	210,606
Federal and state income taxes	**102,688**	56,755	42,979
Total current liabilities	**2,240,118**	2,188,479	1,333,382
Long-Term Debt, less current maturities	**3,248,102**	3,119,225	890,645
Obligations Under Capital Leases, less current obligations	**151,137**	169,707	133,779
Long-Term Insurance Reserves	**286,675**	213,872	102,370
Other Liabilities	**164,583**	88,833	16,654
Deferred Income Taxes	**105,558**	111,877	31,836
Series A $4.375 Preferred Stock of $1.00 par value, authorized 4,200,000 shares; outstanding 3,926,109 in 1988 and 3,961,965 in 1987		196,305	198,098
Series B $6.80 Preferred Stock of $1.00 par value, authorized 1,215,000 shares; outstanding 1,153,787 in 1987			57,689
Common Shareholders' Equity			
Common stock of $1.00 par value, authorized 100,000,000 shares; issued 36,135,539 in 1989, 31,992,157 in 1988 and 31,950,332 in 1987	**36,136**	31,992	31,950
Additional paid-in capital	**323,440**	133,197	151,238
Retained earnings	**934,956**	857,659	807,403
Less cost of common treasury stock; 1,664,158 in 1989, 1,766,712 in 1988 and 1,806,180 in 1987	**(92,721)**	(100,726)	(104,847)
Total common shareholders' equity	**1,201,811**	922,122	885,744
	$7,397,984	$7,010,420	$3,650,197

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands of dollars)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Cash flows from operating activities			
Net earnings	**$118,129**	$98,251	$154,310
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**360,548**	297,835	198,425
Loss (gain) on disposal of owned property	**(44,069)**	463	(12,800)
Deferred income taxes	**(13,814)**	7,512	(41,194)
Other	**14,880**	22,404	14,734
(Increase) decrease in current assets:[1]			
Receivables	**(21,134)**	(37,932)	(2,198)
Inventories	**(13,730)**	(109,418)	(14,223)
Prepaid expenses	**13,260**	30,520	(20,708)
Increase (decrease) in current liabilities:[1]			
Trade accounts payable	**39,752**	59,318	17,130
Other accrued liabilities	**10,214**	73,185	19,356
Accrued payroll and benefits	**25,120**	(9,564)	1,403
Federal and state income taxes	**45,933**	27,193	(17,544)
Total adjustments	**416,960**	361,516	142,381
Net cash provided by operating activities	**535,089**	459,767	296,691
Cash flows from investing activities			
Expended for property, plant and equipment	**(545,641)**	(485,604)	(268,523)
Proceeds from disposal of properties	**136,139**	439,322	48,982
Purchase of Lucky Stores, Inc., net of cash acquired		(2,564,808)	
Net cash used in investing activities	**$(409,502)**	$(2,611,090)	$(219,541)

[1] Amounts reflected for 1988 are net of effects from purchase of Lucky Stores, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands of dollars)	53 Weeks 1989	52 Weeks 1988	52 Weeks 1987
Cash flows from financing activities			
Proceeds from long-term borrowing	**$715,820**	$2,931,587	$110,124
Reduction of long-term debt	**(697,464)**	(666,327)	(92,588)
Principal payments for obligations under capital leases	**(25,852)**	(12,812)	(10,745)
Proceeds from exercise of stock options	**6,569**	5,080	2,449
Cash paid for redemption of Series A Preferred Stock	**(5,251)**		
Redemption of Series B Preferred Stock		(64,150)	
Purchase of treasury stock	**(557)**	(13,793)	(60,662)
Redemption of Common Share Purchase Rights		(1,507)	
Cash dividends	**(40,832)**	(47,995)	(51,154)
Net cash (used in) provided by financing activities	**(47,567)**	2,130,083	(102,576)
Net increase (decrease) in cash and cash equivalents	**78,020**	(21,240)	(25,426)
Cash and cash equivalents			
Beginning of year	**9,458**	30,698	56,124
End of year	**$87,478**	$9,458	$30,698
Supplementary Information — Consolidated Statements of Cash Flows:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$349,092**	$268,615	$109,362
Income taxes, net of refunds	**$100,090**	$74,147	$195,579
Additions to obligations under capital leases	**$6,707**	$14,923	

The Company purchased all shares of common stock of Lucky Stores, Inc. on June 2, 1988 for $2,588,956 in cash, including transaction costs. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	$3,511,237
Cash paid for all common shares of Lucky Stores, Inc., including transaction costs	(2,588,956)
Liabilities assumed	$922,281

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
1987					
Balances at February 1, 1987	$31,927	$150,598	$704,247	$(48,679)	$838,093
Net earnings—52 weeks ended January 30, 1988			154,310		154,310
Issuance of 97,934 shares for stock options		(2,469)		4,494	2,025
Conversion of Series A $4.375 preferred stock					
to common stock	23	1,042			1,065
Common dividends $.84 per share			(25,928)		(25,928)
Preferred dividends:					
Series A $4.375 per share			(17,387)		(17,387)
Series B $6.80 per share			(7,839)		(7,839)
Purchase of 1,060,365 shares for treasury				(60,662)	(60,662)
Other		2,067			2,067
Balances at January 30, 1988	$31,950	$151,238	$807,403	$(104,847)	$885,744

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
1988					
Balances at January 30, 1988	$31,950	$151,238	$807,403	$(104,847)	$885,744
Net earnings—52 weeks ended January 28, 1989			98,251		98,251
Issuance of 297,288 shares for stock options					
and awards	3	(12,837)		17,914	5,080
Conversion of Series A $4.375 preferred stock					
to common stock	39	1,754			1,793
Redemption of Series B Preferred stock		(6,461)			(6,461)
Redemption of Common Share Purchase Rights		(1,507)			(1,507)
Common dividends $.88 per share			(26,556)		(26,556)
Preferred dividends:					
Series A $4.375 per share			(17,216)		(17,216)
Series B $3.66 per share			(4,223)		(4,223)
Purchase of 257,820 shares for treasury				(13,793)	(13,793)
Other		1,010			1,010
Balances at January 28, 1989	$31,992	$133,197	$857,659	$(100,726)	$922,122

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY (cont'd) American Stores Company and Subsidiaries
Fiscal years ended February 3, 1990, January 28, 1989 and January 30, 1988

(In thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
1989					
Balances at January 28, 1989	**$31,992**	**$133,197**	**$857,659**	**$(100,726)**	**$922,122**
Net earnings—53 weeks ended February 3, 1990			**118,129**		**118,129**
Issuance of 149,384 shares for stock options and awards	**3**	**(693)**		**8,562**	**7,872**
Conversion of Series A $4.375 preferred stock to common stock	**4,141**	**186,977**			**191,118**
Common dividends $1.00 per share			**(32,231)**		**(32,231)**
Preferred dividends:					
Series A $2.1875 per share			**(8,601)**		**(8,601)**
Purchase of 46,830 shares for treasury				**(557)**	**(557)**
Other		**3,959**			**3,959**
Balances at February 3, 1990	**$36,136**	**$323,440**	**$934,956**	**$(92,721)**	**$1,201,811**

See notes to consolidated financial statements

SIGNIFICANT ACCOUNTING POLICIES

Business and Properties. The Company, through its subsidiaries, is engaged primarily in the operation of retail stores, selling drug and food merchandise through 1,894 retail food, drug and combination drug/food stores in 40 states. The Company and its subsidiaries also own or lease office facilities, land held for future retail locations and various manufacturing, warehousing and food processing facilities throughout the country.

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories. Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is used to determine the cost of the majority of drug, general merchandise and dry grocery inventories. Cost of the remaining inventories is computed by either the FIFO (first-in, first-out) or average cost methods.

Depreciation and Amortization. Depreciation and amortization charged to earnings for financial statement purposes, including amortization of property under capital leases, are generally computed using the straight-line method applied to individual property items. The depreciable lives are primarily 25 to 40 years for buildings, 4 to 10 years for machinery, equipment and fixtures, and generally 5 to 30 years for leasehold improvements and property under capital leases, depending on the life of the lease.

Goodwill. Goodwill, principally from the acquisition of Lucky Stores, Inc., represents the excess of cost over fair value of net assets acquired and is being amortized over 40 years using the straight-line method.

Costs of Opening and Closing Stores. The costs of opening new stores are charged against earnings as incurred. When operations are discontinued and a store is closed, the remaining investment, net of salvage value, is charged against earnings and, for leased stores, a provision is made for the remaining lease liability, net of expected sublease income.

Income Taxes. In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes", which the Company will be required to adopt by fiscal year ending January 1993. The Company has not completed the complex analysis required to estimate the impact of Statement No. 96 and has not decided whether it will implement early adoption of the statement. However, the adoption of Statement No. 96 is not expected to have a material adverse impact on the Company's financial position.

The Company provides for deferred income taxes or credits as timing differences arise in recording income and expenses between financial reporting and tax reporting. Amortization of purchase accounting adjustments, including goodwill, are not deductible for purposes of calculating an income tax provision.

Net Earnings Per Common Share. Net earnings per common share are determined by dividing the weighted average number of common shares outstanding during the year into net earnings after deducting dividends attributable to preferred shares. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures. The assumed conversion of exchangeable preferred stock into common stock had no material dilutive effect on net earnings per common share and is not included in the fully diluted earnings per share calculation.

Reclassification. The 1988 and 1987 financial statements have been reclassified to conform to the current year presentation.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments, with a maturity of three months or less when purchased, to be cash equivalents. Cash equivalents consist primarily of certificates of deposit, treasury bills

and notes, bankers acceptances, repurchase agreements and commercial paper. Cash equivalents are carried at cost, which approximates market value. There were less than $1,000,000 of cash equivalents on February 3, 1990, January 28, 1989 and January 30, 1988.

INVENTORIES

The dry grocery, general merchandise and drug inventories of certain of the Company's subsidiaries are valued by the LIFO method. If the FIFO and average cost methods had been used, inventories would have been $244,091,000, $186,503,000 and $128,279,000 higher at February 3, 1990, January 28, 1989 and January 30, 1988, respectively. The LIFO charges to earnings, before income taxes, were $57,588,000 in 1989, $58,224,000 in 1988 and $26,051,000 in 1987. At February 3, 1990 approximately 92% of inventories were accounted for using the LIFO method for inventory valuation, compared to 93% at January 28, 1989 and January 30, 1988.

DEBT

In May 1988, the Company entered into an agreement with a group of banks which, as amended in September 1988, provided a $2.1 billion amortizing term loan and a $1.0 billion revolving credit facility, both of which expire in 1996. Interest rates for these two facilities are established at the time of borrowing or roll-overs, through three different pricing options, one of which is the prime rate. Terms of the revolving credit facility provide for borrowings from participating banks or borrowing through issuance of commercial paper, which is supported by the facility.

At February 3, 1990 the Company classified $458,500,000 of short-term bank borrowings and $494,655,000 of commercial paper as long-term debt. At January 28, 1989 the Company classified $400,000,000 in short-term bank notes, $554,735,000 of commercial paper, and $5,000,000 of short-term bank borrowings as long-term debt.

The Company has lines of credit with a group of banks which allow the Company to borrow up to $245,000,000, of which $140,000,000 is committed and $105,000,000 is uncommitted. At February 3, 1990, $191,845,000 were available under the revolving credit facility and bank lines of credit. These lines of credit are used for short-term borrowings and are reviewed annually for renewal. In connection with the committed lines of credit, the Company has agreed to pay commitment fees or to maintain compensating balances which are not restricted as to withdrawal.

During 1989, the Company retired or refinanced the current portion of the amortizing loan facility and retired the $125,000,000 13⅞% Subordinated Notes due in 1989 and in 1991.

The aggregate amounts of long-term debt maturing in each of the next five fiscal years are:

(In thousands of dollars)	
1990	$172,500
1991	258,038
1992	375,410
1993	292,695
1994	336,670
Thereafter	1,985,289
	$3,420,602

The Company's most restrictive loan covenants apply to, among other things, the allowable encumbrances of assets, minimum levels of consolidated net worth, limitations on dividends and the ratio of finance liabilities to net worth and fixed charges coverage. As of February 3, 1990 minimum consolidated net worth, as defined, exceeded the required level by $151,811,000. The Company's various loans secured by real estate are collateralized by properties with a net book value of $592,123,000.

In November 1988, the Company entered into a series of interest rate hedging transactions designed to reduce the Company's exposure to increases in short-term interest rates. The transactions included caps, swaps and options on swaps covering a majority of the Company's bank credit facilities over the eight-year term of the agreement.

A summary of long-term debt is as follows:

(In thousands of dollars)	February 3, 1990	January 28, 1989	January 30, 1988
Notes payable			
11.5% due 1992	**$49,163**	$49,008	$48,867
Subordinated notes payable			
13.875% due in 1989 and 1991		125,000	125,000
Commercial banks, other			
$25,000,000 revolving credit facility—variable interest rates, effectively due 1989			25,000
$800,000,000 revolving credit facility—variable interest rates, effectively due 1993			75,000
Short-term notes effectively due 1993			229,399
$2.1 billion term credit facility—variable interest rates, effectively due 1996—Average interest rates 10.23% in 1989 and 9.70% in 1988	**1,279,000**	1,780,000	
$1 billion revolving credit facility—variable interest rates, effectively due 1996—Average rates 9.77% in 1989 and 9.34% in 1988	**250,000**	400,000	
Short-term notes and commercial paper—variable interest rates, effectively due 1996	**703,155**	559,735	
7.734% due in 1992	**27,000**	27,000	27,000
8.27% due in 1993	**15,000**	15,000	15,000
8.313% due in 1994	**15,000**	15,000	15,000
9.75% due in 1994	**100,000**		
10.89% due in 1995	**50,000**	50,000	50,000
9.65% due in 1996	**140,000**		
9.75% due in 1999	**160,000**		
10.059% due in 1999	**50,000**		
10.63% due in 2004	**111,000**		
Other unsecured debt due through 2004			
Average rate, 11.87% for 1989, 11.76% for 1988 and 12.40% for 1987	**22,007**	13,454	9,392
Loans secured by real estate			
Variable interest rates, due in 1991	**121,277**		
Fixed interest rates, from 3.75% to 17.5% due through 2014	**328,000**	368,049	285,232
Total	**3,420,602**	3,402,246	904,890
Less current maturities	**172,500**	283,021	14,245
Long-term debt	**$3,248,102**	$3,119,225	$890,645

CAPITALIZED INTEREST COSTS

The Company capitalized interest costs of $7,067,000, $4,178,000 and $1,222,000 in 1989, 1988 and 1987, respectively, associated with long-term construction projects. Total interest costs incurred by the Company, before recognition of the capitalized amounts, were $407,437,000, $289,599,000 and $112,128,000 for the respective years.

LEASES

The Company leases retail stores, offices and distribution facilities. Initial lease terms range from 15 to 30 years, plus renewal options, and may provide for additional rentals based on sales volume in excess of specified levels.

The summary below shows the aggregate future minimum rental commitments as of February 3, 1990 for both capital and operating leases. Operating leases are shown net of an aggregate $92,951,000 of minimum rental income receivable under non-cancellable subleases. Operating leases also exclude the amortization of acquisition related fair value adjustments.

Fiscal Year (In thousands of dollars)	Operating Leases	Capital Leases
1990	$143,053	$32,424
1991	136,652	31,046
1992	125,283	28,683
1993	116,850	26,295
1994	109,964	25,251
Thereafter	1,024,007	170,238
Total minimum rental commitments	$1,655,809	313,937
Less executory costs (such as taxes, insurance and maintenance) included in capital leases		5,973
Net minimum lease payments		307,964
Less amount representing interest		142,587
Obligations under capital leases, including $14,240 due within one year		$165,377

Rental expense, excluding amortization of purchase accounting adjustments of $8,497,000 in 1989, $7,091,000 in 1988 and $4,079,000 in 1987, was as follows:

(In thousands of dollars)	Minimum Rentals	Sublease Income	Net	Rental Based on Sales	Total Rentals
1989	**$149,768**	**$9,706**	**$140,062**	**$56,029**	**$196,091**
1988	129,410	13,138	116,272	40,772	157,044
1987	96,734	16,371	80,363	26,067	106,430

INCOME TAXES

Federal and state income taxes charged to earnings are summarized below:

(In thousands of dollars)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Current:			
Federal	**$132,942**	$118,642	$130,563
State	**25,523**	20,937	26,215
Deferred:			
Federal	**(20,582)**	(26,118)	(17,671)
State	**(5,674)**	(4,609)	(2,266)
	$132,209	$108,852	$136,841

The provision for income taxes differs from the amount which would be provided by applying the federal statutory rate to earnings before income taxes as follows:

	53 Weeks 1989	52 Weeks 1988	52 Weeks 1987
Statutory federal income tax rate	**34.0%**	34.0%	39.0%
State income tax rate, net of federal income tax effect	**5.9**	5.7	4.7
Purchase accounting adjustments	**12.9**	10.4	3.0
Tax credits	**(0.5)**	(0.6)	(0.1)
Other	**.5**	3.1	0.4
Effective income tax rate	**52.8%**	52.6%	47.0%

Deferred income tax expense (benefit) resulted from the following:

(In thousands of dollars)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Accelerated depreciation for tax purposes	**$14,756**	$16,077	$4,931
Reserves for self-insurance	**(36,402)**	(51,625)	(10,990)
Pension reversions	**(820)**	9,439	
Uniform capitalization of inventory and construction costs	**(2,197)**	(2,358)	(7,605)
Reserves for vacation pay	**(1,846)**	(9,366)	(9,314)
Reorganization expenses		(1,942)	676
Employee benefit plan contributions		12,188	
Other	**253**	(3,140)	2,365
	$(26,256)	$(30,727)	$(19,937)

STOCK OPTION PLANS

The Board of Directors has authorized, and shareholders approved, a 1989 Stock Option and Stock Award Plan (the "1989 Plan"), which provides for the grant of options to purchase shares of common stock, the grant of stock appreciation rights, and the making of restricted stock awards, for an aggregate of up to 1,200,000 shares of common stock, subject to certain anti-dilution adjustments. The 1989 Plan also provides for the grant of certain stock appreciation rights in connection with a Change of Control (as defined) of the Company ("limited stock appreciation rights") for an aggregate of up to 767,450 shares, to be issued in connection with options outstanding under the Company's 1974 Stock Option Plan (the "1974 Plan") and the Company's 1975 Employees' Stock Option Plan (the "1975 Plan"). Limited stock appreciation rights were granted under the 1989 Plan in connection with nonqualified stock options outstanding as of February 1, 1989 under the 1974 Plan and 1975 Plan that were otherwise unaccompanied by stock appreciation rights, subject to the above approval.

The 1985 Stock Option and Stock Award Plan (the "1985 Plan") provides for the grant of options to purchase shares of common stock, the grant of stock appreciation rights, and the making of restricted stock awards, for an aggregate of up to 1,000,000 shares of common stock, subject to certain anti-dilution adjustments.

At February 3, 1990 there were no common shares under stock options outstanding under the 1989 Plan, 701,050 common shares under stock options outstanding under the 1985 Plan and 576,830 common shares under stock options outstanding under expired plans.

During the year ended February 3, 1990, under the 1985 Plan, the Company granted 166,850 stock options to employees at an average price of $32.04 per common share. The average price of common stock options exercised during 1989 was $51.17 per share.

	1989	1988	1987
Stock options outstanding at beginning of year	**1,481,612**	1,113,957	1,293,782
Granted	**166,850**	551,500	50,000
Exercised	**(211,036)**	(145,511)	(128,911)
Forfeited	**(159,546)**	(38,334)	(100,914)
Outstanding at end of year	**1,277,880**	1,481,612	1,113,957
Exercisable at end of year	**307,221**	378,502	340,066
Average option price per share	**$27.54**	$30.57	$46.28
Reserved for future grant, including 1989 Plan	**1,217,371**	1,243,100	775,500

During 1988, the Company issued restricted stock awards to employees at no cost under the 1985 Plan. These restricted shares are fully votable, receive dividends, and become vested to the employees over a maximum of four years contingent upon the employees' continued employment with the Company. As of February 3, 1990, 139,500 restricted share awards were outstanding.

Compensation relating to stock option and award plans decreased pretax earnings by $7,798,000 in 1989, decreased pretax earnings by $5,264,000 in 1988 and increased pretax earnings by $812,000 in 1987.

SUPPLEMENTARY STATEMENTS OF EARNINGS INFORMATION

Advertising expense amounted to $221,235,000, $203,035,000 and $170,724,000 for 1989, 1988 and 1987, respectively.

PREFERRED STOCK

Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock. On September 13, 1989, the Company called for redemption, on October 13, 1989 all outstanding shares of its Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock at a

redemption price of $52.625 plus accrued dividends of $0.7072. Through the close of business on October 12, 1989, each share of preferred stock was convertible into 1.0782 shares of common stock.

During 1989, 3,842,000 shares of the approximately 3,900,000 outstanding shares of the Series A Preferred Stock were converted into approximately 4,141,000 shares of common stock. Due to the relatively small number of Series A shares redeemed, the Company waived standby arrangements it had entered into in connection with the call of the Series A Preferred shares. If the Series A Preferred Stock had been converted at the beginning of fiscal 1987, earnings per common share would have been $3.43, $2.86 and $4.41 for 1989, 1988 and 1987, respectively.

Series B $6.80 Cumulative Exchangeable Preferred Stock. On August 15, 1988, the Company redeemed all of its outstanding shares of Series B $6.80 Cumulative Exchangeable Preferred Stock at $55.60 per share plus accrued and unpaid dividends up to and including the date of redemption.

RETIREMENT PLANS

The Company sponsors and contributes to two active defined contribution retirement plans, American Stores Retirement Estates (ASRE) and Lucky Stores Retirement Estates (LSRE). These plans were authorized by the Board of Directors for the purpose of providing retirement benefits for certain employees of American Stores Company and its subsidiaries.

The Company also contributes to multi-employer defined benefit retirement plans in accordance with the provisions of the various labor contracts that sponsor the plans. The multi-employer plan contributions are generally based on the number of hours worked. Information for these plans as to vested and non-vested accumulated benefits and net assets available for benefits is not available.

Retirement plan expense was as follows:

(In thousands of dollars)	**53 Weeks 1989**	52 Weeks 1988	52 Weeks 1987
Company sponsored plans	**$75,653**	$61,194	$64,232
Multi-employer plans	**105,353**	99,168	59,317
	$181,006	$160,362	$123,549

Effective December 31, 1984, the Board of Directors of the Company authorized the termination of the Company sponsored defined benefit retirement plan. Calculations for ultimate distributions from the plan were subsequently completed and indicated that assets held by the plan exceeded the vested benefits of participants at the time of plan termination.

Because of uncertainties relating to the termination in March 1984 of the so-called "Rule of '80" (sum of age and years of service) feature of the Plan prior to the Plan termination and the desire of the Company to adopt a "shortfall supplement" program designed, to the extent possible, to ameliorate potential inequities which could affect certain groups of employees by virtue of the termination of the Plan and the adoption of ASRE, the Company and an affected employee filed a declaratory judgment action against the Plan and the American Stores Company Benefit Plans Committee (which is defending said action through a litigation subcommittee comprised of non-officers of the Company) on June 23, 1986 in the U.S. District Court for the District of Utah (Central Division) seeking a judicial declaration that the termination of the "Rule of '80" benefit was proper and that individuals so qualifying are entitled to participate in the "shortfall supplement" program.

In May 1989, the Federal District Court held that the Company's termination of the so-called "Rule of '80" provision in the terminated retirement plan was in violation of the applicable provisions of the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA). The Company is appealing the decision.

In 1988, the Company reached an agreement with the other parties to the litigation which allowed the Company to recover assets in the Plan in excess of $45 million. The amount estimated by the Company's actuaries to be the maximum probable cost of reinstating the "Rule of '80" benefit was $41.5 million. The recovery of amounts in excess of $45 million resulted in after tax earnings of $29,848,000. If the Company prevails in the litigation, it will recover the remaining assets in the Plan. In the event the Court determines that the "Rule of '80" benefit should be reinstated, the Company remains liable to the Plan if the cost of reinstating the benefit exceeds the Plan's assets. The Company believes, however, that the remaining assets within the terminated retirement

plan are, in any event, adequate to cover the benefits due to eligible participants if the so-called "Rule of '80" provision is reinstated.

At the date of the Company's acquisition of Lucky Stores, Inc., Lucky maintained a noncontributory defined benefit retirement plan for certain of its employees. Effective December 31, 1988, the Plan was terminated and all members actively employed on that date became fully vested in their retirement benefits under the Plan. Lucky also maintained a cash or deferred arrangement under Section 401(k) of the Code, the Lucky Tax Savings Plan, as one of its retirement programs for certain of its employees. Effective January 1, 1989, the Lucky Tax Savings Plan was renamed Lucky Stores Retirement Estates (LSRE) and was amended to include an annual Company profit sharing contribution feature and a voluntary employee after-tax deposit feature in addition to the pre-tax employee deposit feature already present. Contributions to ASRE and LSRE are made at the discretion of the Board of Directors.

COMMON SHAREHOLDERS' EQUITY

The Company called for redemption, on October 13, 1989, all outstanding shares of its Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock at a redemption price of $52.625 plus accrued dividends of $0.7072. Substantially all holders of the Series A Preferred Stock exercised an option to convert each Series A Preferred share into 1.0782 shares of common stock. During 1989, approximately 3,842,000 Series A Preferred shares were converted into approximately 4,141,000 shares of common stock. Cash was issued in lieu of fractional shares. As a result of the conversion of substantially all of the Series A Preferred Stock into common stock, as adjusted for cash in lieu of fractional shares, common stock increased $4,141,000 and additional paid-in capital increased $186,977,000.

During March 1988, the Board of Directors of the Company declared a distribution of one Preferred Share Purchase Right for each outstanding share of the Company's common stock. In a related action, the Board redeemed the Company's existing Common Share Purchase Rights during March 1988 for five cents per Right.

Each Right entitles shareholders to purchase one-hundredth of a share of a new series of preferred stock at an exercise price of $250. The Rights will be exercisable only if a person or group acquires 20% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of the Company's common stock. The Rights will not apply to a 20% or greater position held by Mr. L.S. Skaggs, the Company's Chairman, or certain other related parties. American Stores Company will be entitled to redeem the new Rights at one cent per Right any time before a 20% or greater position has been acquired. Additionally, the Company may lower the 20% threshold to not less than the greater of (i) any percentage greater than the largest percentage of common stock known by the Company to be owned by any person (other than L.S. Skaggs) and (ii) 10%.

If the Company is acquired in a merger or other business combination transaction, each new Right will "flip over" and entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the Right's exercise price. In addition, if a person or group acquires 20% or more of the outstanding American Stores common stock, each new Right will "flip in" and entitle all other holders to purchase, at the Right's then current exercise price, a number of shares of American Stores common stock having a market value of twice the Right's exercise price. Further, at any time after a person or group acquires 20% or more of the outstanding American Stores common stock but prior to the acquisition of 50% of such stock, the Board of Directors may, at its option, exchange part or all of the new Rights (other than Rights held by the acquiring person or group) for shares of the Company's common stock at an exchange rate of one share of common stock for each Right.

ACQUISITION

On June 2, 1988, Alpha Beta Acquisition Corporation (the "Purchaser"), an indirect wholly owned subsidiary of American Stores Company, accepted for purchase all shares of common stock of Lucky Stores, Inc. pursuant to the tender offer for all outstanding shares

at $65.00 per share in cash. On June 9, 1988, the Purchaser was merged with and into Lucky Stores, Inc. pursuant to the short-form merger provisions of the Delaware General Corporation Law, with the result that Lucky Stores, Inc. became an indirect wholly owned subsidiary of American Stores.

The consolidated financial statements include the results of operations of Lucky Stores, Inc. from June 2, 1988. The acquisition has been accounted for using the purchase method of accounting. Lucky Stores, Inc.'s assets and liabilities have been recorded in the Company's financial statements at their estimated fair values at the acquisition date.

The following pro forma combined results of operations for the fifty-two weeks ending January 28, 1989 and January 30, 1988 assumes that the purchase of Lucky Stores had occurred at the beginning of each fiscal year. The results are not necessarily indicative of what would have occurred had the acquisition been consummated at the beginning of the period, or of future operations of the combined companies (see Legal Proceedings footnote regarding California litigation). The pro forma results of operations are based on purchase accounting adjustments recognized in consolidating Lucky, and include certain preliminary acquisition adjustments, including additional interest expense as if the funds borrowed in connection with the purchase had been borrowed from the beginning of each period.

All material nonrecurring items associated with the merger have been eliminated in combining the companies on a pro forma basis. This includes the exclusion of the results of operations for Lucky's Arizona stores, Lucky's Florida Division and the stores disposed of under an agreement with the Federal Trade Commission.

Pro forma (unaudited) (In thousands, except per share data)	52 Weeks Ended	
	January 28, 1989	January 30, 1988
Sales	$20,160,182	$18,942,424
Net earnings	$84,669	$69,160
Net earnings per common share	$2.09	$1.43

LEGAL PROCEEDINGS

In addition to other litigation arising in the ordinary course of the business of the Company and its subsidiaries, Jewel Companies, Inc. is subject to significant amounts of litigation in connection with the production and sale by Jewel in March and April 1985 of milk which contained Salmonella typhimurium and the Company is in litigation with the California Attorney General regarding the Company's acquisition of Lucky Stores, Inc.

Jewel is a defendant in a certified class action seeking compensatory damages on behalf of approximately 16,000 claimants. Jewel believes that approximately 2,800 of these claims are invalid for various reasons and that an undetermined number of the remaining claims are claims by persons who have previously filed a separate suit against Jewel. Jewel has entered into a settlement agreement with class counsel in which Jewel acknowledged liability for compensatory damages to proper class claimants under principles of strict liability. Under the settlement agreement Jewel has established a claims facility to process, negotiate and, if necessary, arbitrate settlements of class claims. As of March 2, 1990 approximately 8,687 of the class claims have been settled or disposed of through binding arbitration. The preparation of offers to, and/or negotiations with, the remaining claimants is proceeding.

As of the beginning of March, 1990, Jewel has settled with more than 23,468 persons who were either class members or who settled outside the class. Jewel continues to be a defendant in approximately 161 lawsuits involving approximately 1,134 persons who opted out of the class. Some of these remaining suits involve allegations of wrongful death, serious injury or permanent disability.

In 1987, Jewel received a unanimous defense verdict in a class action punitive damage trial, which verdict is currently on appeal. The appeal has been fully briefed and oral argument took place on April 3, 1990 in the Illinois Appellate Court for the First District. The Company believes it will prevail in the appeal of the class action punitive damage verdict. Some of the individual lawsuits also contain punitive damage

claims. Management believes that Jewel will prevail in any additional punitive damage cases which may go to trial.

Costs of settlements and defense expenses associated with the Salmonella claims and lawsuits have exceeded the amount of available insurance coverage for such claims. The Company accrued a $32.5 million pre-tax charge to fourth quarter earnings as an addition to its existing reserves for claims and expenses of this litigation, and believes that the total reserves for this litigation after this addition should be sufficient to resolve the remaining compensatory claims and expenses stemming from the 1985 outbreak. If any amounts in excess of existing reserves are necessary to satisfy the remaining claims and expenses, management believes that such amounts will not have a material adverse impact on the consolidated financial position of the Company. This conclusion is based on the Company's belief that it will prevail in the appeal of the class action punitive damage verdict and any other punitive damage trial that might take place.

Certain additional plaintiffs have alleged that in addition to the Salmonella outbreak in 1985, Jewel produced certain Salmonella contaminated milk in 1984 that injured consumers of the milk. A lawsuit entitled *Forester v. Jewel Companies, Inc.* was filed in the Circuit Court of Cook County, Illinois, seeking certification of a class action on behalf of persons injured by the alleged contaminated milk and seeking compensatory and punitive damages. In July, 1989, the Circuit Court conditionally certified a class of certain persons who claim to have contracted Salmonella from Jewel dairy products manufactured in 1984. The Company is unable at this time to determine how many persons might be included in such a class. Plaintiffs have filed a motion seeking court approval of a proposed notice to the class. Jewel has filed an objection to the notice and has filed a motion seeking decertification of the class. Neither the motion to approve the notice nor the motion to decertify the class have yet been ruled on by the court. Jewel denies that it produced contaminated milk in 1984 and denies liability to the conditional class. Jewel has insurance for the 1984 year that is applicable to these claims and the Company believes that its insurance coverage is adequate to cover any liability and expenses arising from these claims.

In September 1988, the California Attorney General ("CAG") sued the Company and its wholly owned subsidiary Lucky Stores, Inc. ("Lucky") in the United States District Court for the Central District of California, alleging that the Company's acquisition of Lucky violated federal and state antitrust laws. The suit sought rescission of the acquisition, divestiture of Lucky, a permanent injunction against combining the businesses of Lucky and Alpha Beta in the state of California, and other relief as deemed proper by the Court. The suit does not involve any claim for damages, civil penalties or other monetary relief against the Company or its subsidiaries. Initially, the suit sought injunctive and equitable relief and civil penalties for alleged violations of California state antitrust and unfair competition law but the CAG conceded that those state law claims should be dismissed.

The District Court issued a preliminary injunction preventing further integration of the businesses of Lucky and Alpha Beta in California and ordering the Company to maintain the status quo as to the California operations of Lucky and Alpha Beta. The District Court found there was a strong probability that the acquisition of Lucky would be found to violate Section 7 of the Clayton Act, that the citizens of California would be irreparably harmed if the preliminary injunction was not ordered, and that such harm outweighed any harm to the Company resulting from the injunction. The Company immediately took an expedited appeal of this order to the United States Court of Appeals for the Ninth Circuit.

The Ninth Circuit reversed the preliminary injunction as overly broad, finding that it was a form of indirect divestiture, a type of relief unavailable to the CAG. However, the Ninth Circuit, acknowledging the substantial degree of deference to be given to such preliminary findings by an appellate court, affirmed the District Court's findings on the CAG's probability of success on the merits, irreparable harm, and balance of hardships. Issuance of the Ninth Circuit's mandate was delayed by the CAG's petition for rehearing and suggestion for rehearing en banc, both of which eventually were denied.

Issuance of the mandate of the Ninth Circuit's opinion is presently stayed by the United States Supreme Court per Justice O'Connor, in chambers, who granted the CAG's application for a stay pending determination of the CAG's petition for a writ of certiorari. In Justice O'Connor's opinion granting the stay of the Ninth Circuit's mandate, she found that there was a reasonable probability that certiorari would be granted and a fair prospect that the decision of the Ninth Circuit will be overturned. The stay was conditioned on California's posting a bond, the adequacy of which was to be determined by the District Court. At a hearing on August 29, 1989, Judge David Kenyon denied the Company's request to set the bond at $8.5 million and ordered the State of California to post a bond in the amount of $10,000.

On October 15, 1989, the Supreme Court granted the CAG's petition for a writ of certiorari and the matter has now been fully briefed and argued, and a decision is expected by mid-1990. If the Supreme Court reverses the Ninth Circuit's decision on the availability of divestiture as a remedy, the case will be remanded to the District Court for a trial on the merits. If, thereafter, the acquisition is found to be unlawful, relief could include divestiture of all or some of Lucky or Alpha Beta.

If the Ninth Circuit's holding is affirmed, the stay should be vacated and the Company should be free to integrate the businesses of Alpha Beta and Lucky. The case will still be remanded to the District Court for a full trial on the merits. Then, if the acquisition is found to be unlawful, relief should be limited to injunctions "directed at the symptoms rather than the underlying cause" of any proven illegality. Accordingly, in such event, if the CAG attempts to obtain a preliminary injunction prior to a trial on the merits, such relief should not include direct or indirect divestiture relief.

On November 7, 1989, United States District Court Judge David Kenyon approved a stipulation agreed to by the Company and the State of California that modifies his September 29, 1988 preliminary injunction. The stipulation only affects the Lucky and Alpha Beta operations in northern California. At the time the stipulation was approved, the Company had 36 Alpha Beta stores and 154 Lucky stores in northern California. The stipulation provides that the Company must divest approximately 13 stores in northern California. To date, 5 Alpha Beta stores and 2 Lucky stores have been sold or closed pursuant to the stipulation; negotiations for the sale of the remaining 6 stores are ongoing. The Company is permitted to integrate its remaining northern California Alpha Beta stores with the Lucky stores. The stipulation further provides that the Court may, under certain circumstances, order additional divestitures in northern California, but those divestitures will not exceed $1 million in weekly sales and would only be required if divestiture is determined to be an available remedy and further relief is deemed necessary by the Court. There are several additional terms and conditions in the stipulation, including an agreement by the Company to refrain from opening new stores in the Napa, California area for a period of three years.

On January 3, 1990, the United States District Court of the Central District of California approved a second stipulation agreed to by the Company and the State of California that further modifies the preliminary injunction. The stipulation permits the manufacturing and warehousing facilities of Lucky's southern California division to sell and deliver merchandise and products to stores operated by Alpha Beta and for the manufacturing and warehousing facilities of Alpha Beta's southern California division to sell and deliver merchandise and products to stores operated by Lucky. The stipulation also permits Lucky to participate in the Company's national accounts buying program, to purchase fixtures from American's manufacturing facility, permits a limited number of permanent and temporary employee transfers between Lucky and Alpha Beta, and allows the Company to integrate Lucky's retirement plan into the Company's plan, subject to the possible segregation of the plans in the event the court should deem it necessary.

The stipulations do not affect the ongoing litigation as it relates to the Lucky and Alpha Beta Southern Division stores, which combined operate 357 stores in southern California. Both parties have agreed that the stipulations entered into have no effect on the importance or vitality of the issues on which the United States Supreme Court granted certiorari.

QUARTERLY RESULTS (UNAUDITED)

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included:

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1989[1 2]					
Sales	**$5,213,166**	**$5,378,848**	**$5,269,984**	**$6,142,156**	**$22,004,154**
Gross profit	**1,295,159**	**1,353,735**	**1,321,673**	**1,556,038**	**5,526,605**
Operating profit	**131,547**	**149,928**	**125,341**	**196,711**	**603,527**
Net earnings	**21,515**	**24,640**	**18,847**	**53,127**	**118,129**
Net earnings per common share[3]	**$.57**	**$.67**	**$.60**	**$1.61**	**$3.45**
1988					
Sales	$3,598,887	$4,548,820	$4,941,732	$5,388,915	$18,478,354
Gross profit	871,354	1,132,474	1,216,409	1,346,002	4,566,239
Operating profit	74,747	133,723	100,598	135,271	444,339
Net earnings	27,056	30,269	20,694	20,232	98,251
Net earnings per common share[3]	$.69	$.79	$.54	$.52	$2.54
1987					
Sales	$3,447,278	$3,540,084	$3,473,112	$3,811,921	$14,272,395
Gross profit	851,415	882,370	858,889	942,216	3,534,890
Operating profit	93,186	96,396	81,535	115,551	386,668
Net earnings	35,010	36,456	36,759	46,085	154,310
Net earnings per common share[3]	$.92	$.98	$.98	$1.31	$4.19

[1] 53 Weeks.
[2] The fourth quarter of fiscal 1989 was a fourteen week quarter, compared to thirteen week quarters for fiscals 1988 and 1987.
[3] The effect of the assumed conversion of all convertible securities into common stock equivalents would result in dilution of less than 3%.

American Stores Company
5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah 84127-0447
Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

Registrar and Transfer Agent
First Chicago Trust Company of New York
30 West Broadway
New York, New York 10007
(212) 791-6422

Shareholder Relations
Shareholder inquiries should be directed to:
5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah 84127-0447
Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

Form 10-K
In compliance with the requirements of the Securities and Exchange Commission, the Company has incorporated all essential material of its Form 10-K SEC filing requirements within this annual report. The intended result is to provide shareholders with a single document, fully integrated with annual disclosures.

Additional copies of this annual report and Form 10-K, with exhibits, may be obtained without charge from:

Shareholder Relations
5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah 84127-0447

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended February 3, 1990

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________ to ____________

Commission file number 1-5392

American Stores Company
(Exact name of registrant as specified in its charter)

Delaware	87-0207226
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
5201 West Amelia Earhart Drive Salt Lake City, Utah	84116
(Address of principal executive offices)	*(Zip Code)*
Registrant's telephone number, including area code:	(801) 539-0112 (800) 541-2863

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	*Name of each exchange on which registered*
Common Stock ($1 par value)	Midwest Stock Exchange, Inc. New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Philadelphia Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
Title of each class
None

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of April 3, 1990.
Common Stock, $1 Par Value—$1,689,656,706

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of April 3, 1990.
Common Stock, $1 Par Value—34,475,815

Documents Incorporated by Reference:
Portions of the Annual Proxy Statement for the Annual Meeting of Shareholders to be held on June 12, 1990 are incorporated by reference into Parts I and III. Portions of the Annual Report for the year ended February 3, 1990 are incorporated by reference into Parts I, II, III and IV.

AMERICAN STORES COMPANY
FORM 10-K CROSS REFERENCE INDEX

*Not applicable
**Incorporated by reference to American Stores Company's Annual Proxy Statement for the Annual Meeting to be held June 12, 1990.
***The following are provided upon request:
II - Amounts Receivable From Related Parties and Underwriters, Promoters and Employees Other Than Related Parties
V - Property, Plant and Equipment
VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

AMERICAN STORES COMPANY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant):
American Stores Company

By (Signature and Title):
/s/ Donald B. Holbrook

Donald B. Holbrook
Executive Vice President and
Chief Legal Officer
April 18, 1990

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Jonathan L. Scott

Jonathan L. Scott
Vice Chairman of the
Board and Chief
Executive Officer
April 18, 1990

/s/ Victor L. Lund

Victor L. Lund
Vice Chairman of the Board,
Chief Financial and
Administrative Officer
April 18, 1990

/s/ Teresa Beck

Teresa Beck
Senior Vice President Finance and
Assistant Secretary
April 18, 1990

AMERICAN STORES COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ L. S. Skaggs
L. S. Skaggs
Chairman of the Board
and Director
April 18, 1990

/s/ Leon G. Harmon
Leon G. Harmon
Director
April 18, 1990

/s/ Barbara S. Preiskel
Barbara S. Preiskel
Director
April 18, 1990

/s/ Louis H. Callister
Louis H. Callister
Director
April 18, 1990

/s/ James H. Henson
James H. Henson
Chairman and Chief Executive
Officer of American Superstores, Inc.
and Director
April 18, 1990

/s/ Jonathan L. Scott
Jonathan L. Scott
Vice Chairman,
Chief Executive Officer
and Director
April 18, 1990

/s/ Lawrence A. Del Santo
Lawrence A. Del Santo
Chairman, Chief Executive Officer
and President of Lucky Stores, Inc.
and Director
April 18, 1990

/s/ Victor L. Lund
Victor L. Lund
Vice Chairman,
Chief Financial
and Administrative Officer
and Director
April 18, 1990

/s/ Aline W. Skaggs
Aline W. Skaggs
Director
April 18, 1990

/s/ Arden B. Engebretsen
Arden B. Engebretsen
Director
April 18, 1990

/s/ John E. Masline
John E. Masline
Director
April 18, 1990

/s/ Alan D. Stewart
Alan D. Stewart
President,
Chief Operating Officer
and Director
April 18, 1990

/s/ James B. Fisher
James B. Fisher
Director
April 18, 1990

/s/ L. Tom Perry
L. Tom Perry
Director
April 18, 1990

AMERICAN STORES COMPANY
BOARD OF DIRECTORS

Louis H. Callister [3,4*]
Partner, Law Firm of Callister, Duncan & Nebeker, P.C.

Lawrence A. Del Santo
Chairman, Chief Executive Officer and President
Lucky Stores, Inc.

Arden B. Engebretsen [4,5]
Vice Chairman,
Hercules, Inc.

James B. Fisher [2,4]
Retired, Former President,
J. G. Boswell Company

Leon G. Harmon [1,2,3,4,5]
Retired, Former President,
First Interstate Bank of Utah, N.A.

James H. Henson
Retired, Former Chairman and Chief Executive Officer,
American Superstores, Inc.

Victor L. Lund [6]
Vice Chairman of the Board,
Chief Financial and Administrative Officer

John E. Masline [2,5]
Retired, Former Partner,
Ernst & Young

L. Tom Perry [1,2,4]
Member of the Council of the Twelve,
The Church of Jesus Christ of Latter-Day Saints

Barbara S. Preiskel [2,3]
Attorney,
New York, New York

Jonathan L. Scott [1,5,6]
Vice Chairman of the Board and Chief Executive Officer

Aline W. Skaggs [1,3]
Director

L. S. Skaggs [1,5,6]
Chairman of the Board

Alan D. Stewart [6]
President and Chief Operating Officer

[1]Executive Committee
*Designated Alternate
[2]Audit Committee
[3]Nominating Committee
[4]Compensation and Stock Option Committee
[5]Finance Committee
[6]Real Estate Committee

AMERICAN STORES COMPANY
PRINCIPAL OFFICERS

L. S. Skaggs
Chairman of the Board

Jonathan L. Scott
Vice Chairman of the Board and Chief Executive Officer

Victor L. Lund
Vice Chairman of the Board and Chief Financial and Administrative Officer

Alan D. Stewart
President and Chief Operating Officer

Donald B. Holbrook
Executive Vice President and Chief Legal Officer

Kent T. Anderson
Executive Vice President, General Counsel and Assistant Secretary

Teresa Beck
Senior Vice President Finance and Assistant Secretary

Scott Bergeson
Senior Vice President
Benefits Administration

Gerald T. Glancey
Senior Vice President, Treasurer and Assistant Secretary

H. Prentice Merritt
Senior Vice President
Planning and Development

Michael T. Miller
Senior Vice President
Governmental Relations

Stanley R. Whitcomb
Senior Vice President
Information Systems

Jack Lunt
Vice President,
Assistant General Counsel and Secretary

Dennis N. Beal
Vice President
Controller

Calvin O. Drecksel
Vice President
Investor Relations

American Stores Company corporate headquarters are located at:

5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah
84127-0447
Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

AMERICAN STORES COMPANY
PRINCIPAL SUBSIDIARIES

American Superstores, Inc.
O'Hara Plaza
8725 West Higgins Road
Chicago, Illinois 60631
(312) 399-9435

Acme Markets, Inc.
75 Valley Stream Parkway
Malvern, Pennsylvania 19355
(215) 889-4000
Robert A. Neslund,
President

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
(708) 531-6000
Joseph V. Bugos,
President

Star Market
625 Mt. Auburn Street
Cambridge, Massachusetts 02238-9122
(617) 661-2200
Martin A. Scholtens,
President

American Food and Drug, Inc.
1100 Executive Drive West
Suite 100
Richardson, Texas 75081
(214) 238-7231

Skaggs Alpha Beta
1100 Executive Drive West
Suite 100
Richardson, Texas 75081
(214) 238-7231
Neill F. Crowley,
President

Buttrey Food - Drug
601 6th Street S.W.
Great Falls, Montana 59403
(406) 761-3401
Edward C. Agnew,
President

Jewel Osco
1209 U.S. Highway 19 North, Suite 124
Palm Harbor, Florida 34684-2642
(813) 787-5225
Mark S. Skaggs,
President

American Drug Stores, Inc.
1818 Swift Drive
Oak Brook, Illinois 60521
(708) 572-5000
David L. Maher,
President

Osco Drug
1818 Swift Drive
Oak Brook, Illinois 60521
(708) 572-5000

Sav-on
1500 South Anaheim Boulevard
Anaheim, California 92805
(714) 778-2300

Lucky Stores, Inc.
6300 Clark Avenue
P.O. Box BB
Dublin, California 94568
(415) 833-6000
Lawrence A. Del Santo,
Chairman, Chief Executive Officer
and President

Northern California Division
1701 Marina Boulevard
San Leandro, California 94577
(415) 678-4200
Richard E. Goodspeed,
President

Southern California Division
6565 Knott Avenue
Buena Park, California 90620
(714) 739-2200
William E. Yingling,
President

Alpha Beta Company
777 South Harbor Boulevard
La Habra, California 90631
(714) 738-2000
Roger D. Wilhelm,
Acting President

American Stores Properties, Inc.
5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
(801) 539-0112
H. Prentice Merritt,
Chairman
Jack Lunt,
President

Skaggs Telecommunications Service, Inc.
5181 West Amelia Earhart Drive
Salt Lake City, Utah 84116
(801) 537-1427
Don L. Skaggs,
President

The Annual Meeting of Shareholders will be held on Tuesday, June 12, 1990 at 10:30 am in the Snowbird Center, Snowbird, Utah.

American Stores Company corporate headquarters are located at:

5201 West Amelia Earhart Drive
Salt Lake City, Utah 84116
P.O. Box 27447
Salt Lake City, Utah 84127-0447
Telephone: (801) 539-0112
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